Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

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Room 4203

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5180 Department of Social Services

I. In-Home Supportive Services

Background: The In-Home Supportive Services (IHSS) program provides services to 359,000 low-income aged, blind or disabled individuals that allow them to remain safely in their own homes as an alternative to out-of-home care. IHSS is the largest home and community-based program available in California and is a core component of the state's long-term care system. IHSS services include domestic services, nonmedical personal care services, paramedical services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers, county contracts with service providers, or through welfare staff.

Summary of Funding:
IHSS is funded by a combination of federal, state and county funds. Program services eligible for federal financial participation are provided through the Personal Care Services Program (PCSP), while services ineligible for federal reimbursement are provided through the Residual Program. Eighty-one percent of services are provided through PCSP. PCSP services are a Medi-Cal benefit; therefore, the federal government funds approximately 50 percent of program costs. Nineteen percent of IHSS services are provided through the Residual program. The state and counties fund the non-federal share of IHSS costs, including Residual, at a ratio of 65% to 35%.

The total cost of the IHSS program has more than doubled from $1.39 billion in fiscal year 1998-99 to $2.8 billion in 2002-03. Absent statutory changes or funding changes, IHSS program costs are estimated to rise to $3.7 billion ($1.4 billion GF) in 2004-05.

Summary of Caseload:
IHSS provides services to 359,000 low-income aged, blind or disabled individuals, the vast majority of whom are SSI/SSP and Medi-Cal enrollees. Fifty-one percent of IHSS consumers are disabled, 47 percent are aged, and two percent are blind. Persons with developmental disabilities constitute a significant portion of the IHSS caseload (more than 12 percent). Total IHSS cases increased 64 percent from 1995 to 2003.

Summary of Service Hours:
Changes in caseload composition have contributed to a higher utilization of service hours in the IHSS program. The total number of IHSS service hours delivered in a given year has increased by 61 percent since 1997. The average hours utilized in a month per IHSS consumer has risen by 16 percent to 81 hours per case. Service hour utilization by type of case varies from county to county, but remains below the caps across the state (283 for severely impaired cases, 195 for not severely impaired cases).

Since the mid-1990s the IHSS caseload, hours of service, and program costs have grown. However, to the extent that the program succeeds in keeping low-income aged, blind or disabled individuals in their own homes as an alternative to out-of-home care, it is cost-effective to the state as costs per individual are less than one-fourth the costs of nursing home placement.

Analysis conducted by the California Center for Long-Term Care Integration suggests that IHSS and other home and community-based services may have helped reduce nursing home utilization in California. Since the 1990s, the number of Medi-Cal eligibles over age 65 has increased almost 25%, yet the average nursing home utilization has decreased from almost 44 days per Medi-Cal eligible aged 65+ in 1991 to just over 36 days per eligible in 2001. The Center's findings are consistent with the state's overall decrease in nursing home occupancy rates (from 85 percent in 1992 to 81 percent in 2001), although the state ranks 45th in the nation in terms of number of nursing home beds per resident aged 65 and over. Reductions to IHSS at a time when demographic and programmatic changes are increasing demand for long-term care services may lead to increases in utilization of out-of-home care at substantially higher costs to the state.

Governor's Budget: The Governor's budget proposes to reduce IHSS expenditures by 35 percent from their current law level for total reductions of $991.7 million ($581.2 million General Fund).

VOTE ONLY ITEMS:

Issue A - Eliminate the IHSS Residual Program

Background: The Residual program serves 75,000 low-income aged, blind or disabled consumers. The Residual program funds services that are not eligible for federal financial reimbursement through Medicaid. Program consumers meet the same income, resources and disability eligibility criteria as IHSS PCSP beneficiaries. Whether consumers receive services from the Residual program, the PCSP program, or both, depends on whether the services they require and their arrangement for receiving care qualifies for federal financial reimbursement.

The IHSS Residual program funds the following IHSS services: (1) Cases where the recipient receives payment in advance of service delivery; (2) Services delivered to consumers who only require assistance with domestic chores; (3) Services delivered to minor children whose IHSS provider is a parent and services delivered to consumers whose IHSS provider is a spouse; (4) Protective supervision services provided to clients with cognitive impairments who need around the clock care; (5) Restaurant meal allowances to consumers who receive those services.

In November 2003, the utilization of Residual Services was the following:

Categories of Services	Monthly Cases	Percentage	Monthly Expenditures	Percentage
Total	**63,556**		**$42,261,294**	
Advanced Pay	838	1.32%	$1,577,082	3.73%
Domestic Services Only	27,598	43.42%	$7,653,134	18.11%
Relative Caregiver	20,345	32.01 %	$13,210,872	31.26%
Protective Supervision	13,210	20.78%	$17,756,220	42.02%
Misc./Unknown	3,921	6.17%	$2,175,122	5.15%

Governor's Budget: The Governor proposed to eliminate the IHSS Residual Program effective April 1, 2004, for $116.1 million ($88.8 million General Fund) in savings in 2003-04 and $485.4 million ($365.8 million General Fund) in savings in 2004-05.

May Revision: On May 3, 2004, the Administration submitted an application for a Medicaid 1115 waiver to secure federal financial participation in the IHSS Residual program, in lieu of the elimination proposed by the Governor in November. If approved as submitted, the waiver program will operate according to existing IHSS Residual program requirements and maintain program services for consumers. Transition from the Residual program to the waiver will be transparent to the recipient, but may require administrative work from counties and the state.

The May Revision restores program funding and assumes that the waiver will be approved and that California will receive federal funding for IHSS Residual program costs. A May Finance letter requests that the Legislature establish 9.5 new positions and provide $734,000 ($367,000 General Fund and $367,000 Reimbursements) in increased funding for Department of Social Services staff to develop, implement and manage the IHSS Plus waiver. The May Revision also proposes to establish 5 new positions at the Department of Health Services to oversee the waiver.

Staff recommendation: (1) Adopt the IHSS residual program restoration and assumed increase in federal funding as proposed in the May Revision; (2) Approve 6 of the 9.5 positions requested for waiver oversight; (3) Adopt placeholder trailer bill legislation to implement the IHSS waiver and facilitate the transition of consumers from the Residual Program to the waiver; and (4) Retain the existing statutory framework for the Residual program.

Issue B - Eliminate State Participation in IHSS Provider Wages above Minimum Wage

Background: In 1999, California enacted legislation to provide state participation in provider wages up to 50 cents per hour above minimum wage for increases negotiated prior to or during the 1999-2000 fiscal year. Through higher wages for IHSS providers, the state sought to increase the ability of consumers to hire and retain qualified providers; to improve the quality of program services; to reduce service provider turnover; and to more adequately compensate providers for the services they provide. California expanded its commitment to higher wages for IHSS providers in 2000, when it enacted legislation to provide state participation in IHSS provider wages and benefits up to a maximum of $12.10 per hour. Currently, the state participates in wage costs up to $9.50 per hour, and benefit costs up to $0.60 per hour.

Governor's Budget: The Governor proposes to reduce state participation in IHSS provider wages and benefits from $10.10 to the state minimum wage ($6.75) for savings of $301.6 million ($98 million General Fund) in 2004-05. The budget assumes a phased-in implementation reducing state participation in wages as existing collective bargaining agreements and contracts with private contractors expire. The effect of the Governor's proposal is that upon expiration of current collective bargaining contracts, counties will have to reduce IHSS provider wages or replace current state funding for provider wages with county funds.

Reductions in provider wages may increase provider turnover, limit the ability of consumers to hire a provider, and worsen the quality of care. Lower IHSS provider wages may reduce state tax revenues and increase program costs.

Staff recommendation: Reject the Governor's proposal and restore program funding.

Issue C - IHSS Employer of Record and Advisory Committees

Background: In 1992, California enacted legislation to define the role of Public Authorities established by County Boards of Supervisors to provide for the delivery of IHSS. Public Authorities are the employer of record of IHSS providers for purposes of collective bargaining. IHSS consumers retain the right to hire, fire and supervise their service provider. In addition to being the employer of record, Public Authorities are required to establish and operate a provider registry, to investigate the qualifications and background of potential providers, and to provide training for providers. According to DSS, three counties operated public authorities in 1998.

In 1999, California enacted legislation that required counties to establish an employer of record for IHSS providers by January 2003. Most counties established a public authority to meet the employer of record requirement. Five small counties chose to become the employer of record. Chapter 90, Statues of 1999, (Assembly Bill 1682) also required counties to establish local IHSS Advisory Committees.

Governor's Budget: The budget proposes to: (1) repeal the existing IHSS Employer of Record requirement; (2) eliminate state funding for Public Authorities; and (3) make the establishment of county IHSS Advisory Committees optional for savings of $7.6 million ($2.2 million General Fund) in the budget year. The Governor's proposal may reduce the availability of training for IHSS providers and employee registries as counties would not be required to assume existing public authority responsibilities.

Staff recommendation: Reject the Governor's proposals and restore program funding.

Issue D - Selective Elimination of Domestic Services

Background: IHSS supports the provision of domestic services to eligible low-income aged, blind or disabled consumers that need the services to remain safely in their own homes. Domestic services include sweeping, kitchen and bathroom cleaning, changing bed linens, meal preparation and clean-up, laundry services, and shopping for food. Consumers who reside independently can receive these services based on their level of need, subject to a state cap. Services for consumers who reside in shared living arrangements are pro-rated or reduced to reflect the consumer's use of common areas and shared meals. Approximately 39 percent of IHSS consumers reside in shared living situations.

Governor's Budget: The Governor proposes to eliminate coverage for domestic services when consumers reside with other family members to realize savings of $80.9 million ($26.3 million General Fund) in 2004-05. The proposal conflicts with Medicaid comparability requirements, as it would result in disparate treatment for similarly situated beneficiaries.

May Revision: A May Finance letter requests that the Legislature restore funding to maintain domestic services for consumers who reside with family members. The Administration plans to pursue a waiver of the Medicaid comparability requirement to implement the reduction in the future. The Finance letter proposes trailer bill legislation to implement the proposed service reduction "to the extent permissible under federal law".

Staff recommendation: Adopt the funding increase requested in the May Revision and reject the Administration's proposed trailer bill language.

ITEM FOR DISCUSSION

Issue A - Quality Assurance

Overview of IHSS Assessment, Quality Assurance and Utilization Control Requirements:

Assessment: State law requires that IHSS be administered in a uniform manner in every county and provides that utilization controls can be established for the PCSP program. Since 1988, the state has used the Uniformity System and the uniform assessment form to determine a consumer's level of need and to authorize service hours. California uses the Uniformity system and the uniform assessment form to authorize service hours under PCSP and Residual.

Using the assessment, state regulations and county policies, county social workers determine the degree of assistance required by a recipient in performing Activities of Daily Living and Instrumental Activities of Daily Living, record the amount of time required to assist the recipient in completing tasks, and assign a Functional Index ranking. (The Functional Index ranking is the consumer's relative need for IHSS. 1 means consumer is independent. 5 means consumer cannot perform function without human assistance.) During the assessment process, social workers identify other resources available to the consumer. Based on the level of needs assessed, the time required to meet the needs, and the level of available resources, social workers authorize IHSS service hours.

California establishes regulatory guidelines for some IHSS services (housework, laundry, and shopping). According to DSS, federal and state regulations do not allow guidelines for meal preparation and cleanup, personal care services and paramedical services. The number of hours authorized for personal care services, paramedical services and meal services is solely based on the social worker assessment, subject to the state's caps of 283 hours for PCSP consumers and Residual consumers who are severely impaired, and 195 for Residual consumers who are not-severely impaired. California does not have a uniform definition of what constitutes an alternative resource or specify how having such resources affects the level of service hours authorized (i.e. How does receipt of meals on wheels or adult day health care services affect the level of IHSS service hours authorized?).

Counties are required to conduct individual assessments at least once a year. Counties are also required to conduct assessments when requested to do so by the beneficiary; when a beneficiary moves to a different county; or when the county has information that indicates that the client's condition or living arrangement has changed. Counties can conduct more frequent assessments but are not funded to do so.

IHSS consumers have a right to challenge eligibility determinations, the social worker assessment and the level of service hours authorized.

Quality Assurance: The Department of Social Services has very limited resources to conduct quality assurance efforts (3 staff). Counties also have limited ability to conduct in-home monitoring of quality of care and quality assurance. Generally, to conduct quality assurance counties must redirect staff from required activities to quality assurance efforts. Counties tend to learn of changes in a beneficiary's status when the beneficiary, providers or relatives report such changes or when the county conducts annual assessments.

- IHSS and Medicaid law: Services under IHSS PCSP are federally reimbursable under the Medicaid program and as such, are subject to federal Medicaid requirements. A beneficiary eligible for PCSP services can receive personal care services, up to 283 hours per month. There are currently no limitations on the number of personal care services that can be provided within a specified time frame, as long as the monthly hours do not exceed 283. Eligibility for services and the level of hours authorized is based on the Uniformity System and the IHSS assessment. According to the Department of Health Services (DHS), state law authorizes DHS to adopt specified utilization controls for PCSP.

As a Medi-Cal service, IHSS PCSP services are subject to federal Medicaid requirements. Relevant Medicaid requirements include: **(1) Comparability** - requires that services made available to any categorically needy individuals not be less in amount, duration, or scope than those services made available to medically needy individuals and that services made available to any individuals in the categorically needy or medically needy group must be equal in amount, duration, and scope for all individuals within the group; and **(2) EPSDT** which requires states to provide eligible children any medically necessary services to correct or ameliorate physical and mental illnesses and conditions, if the services are within the scope of mandatory or optional services under federal law, whether or not such services are covered for adults in the state's Medicaid program. Generally, federal and state law permits adoption of utilization controls as long as such controls consider medical necessity, consider individual needs, and do not result in arbitrary denials of services. Utilization controls must be consistent with federal and state law, and case law, including specific restrictions to or prohibition of the adoption of controls.

Governor's Budget: The Governor's Budget establishes the Administration's intent to develop a May proposal to improve the quality of assessments and reduce over-authorization of hours.

May Revision: The May Revision proposes to implement various measures intended to reduce IHSS program costs and increase standardization in the authorization of services by improving the IHSS assessment process. Specifically, the Administration proposes to (1) require and support quality assurance functions in each county, (2) increase state resources for monitoring and supporting county quality assurance functions, (3) provide standardized assessment training for county IHSS workers, (4) provide periodic written notices to providers that remind them of their legal obligations to submit accurate timesheets, including a requirement that timesheets are signed under penalty of perjury, and (5) develop controls for assessed hours subject to prior authorization by the State, based on certification by a physician or medical professional. The May Revision assumes $17 million in net General Fund savings associated with this proposal.

The May Revision assumes that increased quality assurance efforts will reduce the number of cases that receive protective supervision services by 3,000 and that the average hours for new and reassessed cases will be reduced by 5%. The May Revision requests an increase in state operations to establish 18 new positions at DSS and an increase in local assistance to fund 40.5 new county social worker positions to implement quality assurance measures.

According to the County Welfare Directors Association, the state can realize additional savings in the budget year through quality assurance. CWDA argues that an additional $4.8 million General Fund increase in local assistance funding to support improved initial assessments and reassessments can generate estimated savings of $6.7 million General Fund in the budget year and a full-year savings of $13.2 million. Additionally, CWDA argues that additional county quality control unit staff, at a cost of $2.8 million General Fund, would result in an estimated budget year savings of $5.8 million General Fund.

Subcommittee request: The Subcommittee has requested that the Administration discuss its May Revision proposal to reduce IHSS program costs and increase standardization in the authorization of IHSS services through increased quality assurance efforts.

Staff recommendation: (1) Adopt placeholder trailer bill language to assure the appropriate statutory framework for the IHSS program is in place to prevent fraud, protect consumer access to services, and achieve program integrity through quality control activities that assure that the level of IHSS services approved is based on the consumers' level of need. (2) Adopt $32.3 million General Fund in savings resulting from implementation of IHSS quality assurance activities. (3) Approve the Administration's proposed funding increase and new positions for state level quality assurance activities. (4) Adopt a $10.7 million increase in General Fund support for local quality assurance activities.

II. Supplemental Security Income/State Supplementary Program

General Background: The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resource requirements. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share-of-costs. They may also be eligible for the In-Home Supportive Services Program and for other programs designed to support individuals living in the community.

The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients. The state establishes the level of State Supplementary Payment support for individuals and contributes the funds for this portion of the program.

SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. Currently there are 19 different SSI/SSP payment standards. These standards are generally adjusted each calendar year. The current maximum grant for an aged or disabled individual living independently is $790 per month. It is $1,399 for couples living independently.

Summary of Enrollment. Approximately 1.2 million Californians receive SSI/SSP. Over two-thirds of the recipients are disabled, 30 percent are elderly, and two percent are blind. The total caseload for 2004-2005 is estimated to be 1,178,000. Due to changing demographics and a projected increase in California's aging population, the SSI/SSP program caseload is likely to continue to grow in future years.

Summary of Funding. The budget proposes basic SSI/SSP program costs for the 2004-2005 fiscal year to be $7.7 billion ($2.9 General Fund).

VOTE ONLY ITEMS:

Issue A - Elimination of Pass-Through of Federal SSI Cost-of-Living Adjustment

Background: Federal law provides a cost-of-living adjustment to the SSI portion of grants that is based on the Consumer Price Index. Since January 2004, state law provides automatic pass-through of the federal COLA to SSI recipients. In January 2005, the federal SSI adjustment will increase the maximum grant for an individual by $10 to $800 per month.

Governor's Budget: The Budget proposes to withhold the federal COLA for $76.3 million in General Fund savings. Essentially, the budget proposes to reduce the SSP component of the grant by the same amount as the federally funded January 2005 SSI COLA, thereby reducing state SSP expenditures in the budget year.

Staff recommendation: Reject the Governor's proposal and restore program funding.

Issue B - Suspension of State SSI/SSP Cost-of-Living Adjustment

Background: Current law provides an annual state COLA for SSI/SSP grants, which is based on the California Necessities Index. The scheduled COLAs will increase the maximum SSI/SSP grant for an individual from $790 to $812, and from $1,399 to $1,438 for couples.

Governor's Budget: The budget suspends the 2004-2005 state cost-of-living adjustment for the SSI/SSP program to realize savings of $71.1 million. Suspension of the state COLA will maintain grants at a level that does not keep pace with cost-of-living increases such as rising housing costs.

Staff recommendation: Reject the Governor's proposal and restore program funding.

4140 Office of Statewide Health Planning and Development

1. Family Physician Training Program

Background: The Song-Brown Family Physician Training Program seeks to increase the number of general practice health care providers by providing clinical training opportunities to physician residents, physician assistants, and family nurse practitioners. Song-Brown funds 40 institutions that provide clinical training to approximately 403 family practice providers each year.

In 2001-02, Song-Brown providers served approximately 350,000 patients from underserved areas of the state. These providers are a valuable source of health care services in rural California and low-income communities across the state. Song-Brown providers deliver primary care services in the majority of California's teaching hospitals, community health centers, and county facilities. They are 4.5 times more likely than the average physician to practice in underserved areas of the state and generally choose to work in the community where they are trained.

Governor's Budget: The proposed budget provides $4.5 million ($4.1 million General Fund) to support the Song-Brown program, including $235,000 for state operations costs.

Staff comment: The Song-Brown Family Physician Training Program has traditionally been funded by the General Fund. Similar workforce development and training programs operated by the Office of Statewide Health Planning and Development (OSHPD) are funded with fee revenue, including surcharges imposed on specific health care provider licenses.

At the request of Subcommittee staff, the Legislative Analyst's Office examined alternative funding sources for the Song-Brown Program. The LAO concluded that the state could utilize the California Health Data and Planning Fund in lieu of the General Fund for the state operations portion of the program.

The California Health Data and Planning Fund (CHDP) is comprised of revenues generated by fees assessed on licensed health facilities. The revenues are to be used for health planning, data consolidation, and other health-related programs that are required to be administered by OSHPD. Currently, CHDP supports OSHPD's data collection activities. The Governor's Budget proposes to shift administrative costs for the State Loan Repayment Program and the Health Manpower Pilot Projects Program from the General Fund to CHDP. Sufficient resources remain in CHDP to cover the Song-Brown program.

Subcommittee request and questions: The Subcommittee has requested that the Legislative Analyst's Office discuss the feasibility of funding the Song-Brown program with CHDP funds instead of the General Fund.

Staff recommendation: Shift Song-Brown program costs from the General Fund to CHDP and adopt uncodified trailer bill language to require that OSHPD develop non-General Fund strategies to support Song-Brown and report on the strategies at budget hearings.

4170 Department of Aging

VOTE ONLY ITEMS

1. Older American's Act Program Funding

Background: The federal Older Americans Act provides funding to support a series of programs designed to support seniors in living healthy and independent lives. The Act supports congregate nutrition meal programs, home delivered meals, ombudsman services, services to family caregivers, such as counseling and respite care, and other supportive social services, which include transportation and legal assistance.

California will receive a net increase of $2.6 million in federal Older American Act program funding in the budget year. Funding for supportive services will decrease, while funding for home-delivered nutrition, congregate meals, preventive health, the Family Caregiver Support Program, and for the State Office of Long-term Care Ombudsman will increase.

May Revision: A May Finance Letter requests that the Legislature provide an increase in federal funding for Older Americans Act programs of $2.6 million, $1.1 million of which will be expended on a one-time basis.

Staff recommendation: Adopt the May Finance Letter.

2. Aging and Disability Resource Centers

Background: The Department of Aging recently received a federal grant to develop two "one-stop" aging and disability resource centers. The resource centers will serve individuals who need long-term care support, their caregivers and those planning for future long-term care needs. Center services will include benefits counseling, assistance with long-term care planning, health promotion and access to information about available long-term care services. A three-year federal grant, totaling $800,000 and a required local agency match will support center services.

May Revision: A May Finance Letter requests that the Legislature appropriate $267,000 in increased federal grant funds to the Department of Aging for support of Aging and Disability Resource Centers.

Staff recommendation: Adopt the May Finance Letter.

4200 Department of Alcohol and Drug Programs

VOTE ONLY ITEM:

1. Drug Medi-Cal

Background: The Drug Medi-Cal program provides specified substance abuse treatment services to low-income parents, children, seniors and persons with disabilities enrolled in the Medi-Cal program. Drug Medi-Cal is overseen by the Department of Alcohol and Drug Programs and administered locally by county alcohol and drug programs, in collaboration with county welfare departments. The program is funded by state and federal matching funds at an approximate ratio of 1 to 1.

In fiscal year 2003-04, Drug Medi-Cal serves approximately 64,100 persons through one of four treatment modalities, Narcotic Treatment Program, Day Care Rehabilitative, Outpatient Drug Free, and Perinatal Substance Abuse Services.

Governor's Budget: The budget increases funding for the Drug Medi-Cal program by $5.4 million ($3.1 million General Fund) to $109.6 million. The proposed program funding increase reflects a reduction in the level of federal financial participation and small caseload increases. The budget proposes to reduce provider rates to the 2002-03 reimbursement levels.

May Revision: A May Finance Letter requests that the Legislature reduce General Fund supports for Drug Medi-Cal by $450,000 and increase reimbursements by $392,000 to reflect caseload changes and lower dosing and counseling rates.

Staff recommendation: Adopt the May Revision.

DISCUSSION ITEM:

1. Dependency Drug Courts

Background: California's drug court programs work to reduce drug usage and recidivism through the provision of court supervised substance abuse treatment. They integrate drug treatment with other rehabilitation services to promote long-term recovery and reduce social and financial costs of substance abuse. Judges modify program services based on client needs and exercise different enforcement options to assure client compliance with treatment. Drug courts are diverse and serve different populations. Generally, drug court clients have abused alcohol or other drugs for ten or more years and received little or no substance abuse treatment.

Dependency drug courts work to reduce foster care costs and increase permanency for children by providing substance abuse treatment to parents who are involved in dependency court cases. These courts have succeeded in increasing access to substance abuse treatment for parents involved in the child welfare services system, increasing the number of families that are reunified, shortening the time to reunification and reducing children's length of stay in foster care. California currently funds three dependency drug courts through the Comprehensive Drug Court Implementation Program.

Independent evaluations of San Diego's dependency drug court, Substance Abuse Recovery Management System (SARMS) and of Sacramento's dependency drug court (DDC) have found the following:

- **More families reunified.** 33% of the DDC families and 19% of comparison families reunified, creating cost savings of $2,141,056. 58% of families in SARMS were reunified compared to 40% of families in the comparison group.
- **Families reunified faster.** DDC families reunified in 5.6 months and comparison families reunified in 7 months, creating foster care savings of $2,873 per child and overall program savings of $413,712. SARMS families reunified in 8 months, half the time to reunification of the comparison group.
- **Achieved permanency faster.** Time to permanency in unsuccessful reunification cases was shorter for SARMS cases. An alternative permanency plan was ordered in 17 months for SARMS cases and 45 months for comparison group cases.
- **Children had shorter stays in foster care.** The average length of stay in foster care for children in DDC was 10.3 months versus 22.8 months for the comparison group. Under SARMS, children had considerably shorter stays in out-of-home care. 14 months for SARMS to 46 months for the comparison group.
- **Fewer subsequent removals.** Subsequent removals and subsequent substantiated child abuse reports were less common among SARMS participants. Subsequent removals occurred in 20% of SARMS families compared to 35% in comparison group families. The incidence of subsequent substantiated child abuse reports was 24% in SARMS cases and 46% in comparison group cases.

Given estimates that 60 to 80 percent of the state’s substantiated cases of child abuse and 60 to 80 percent of foster care cases involve substance abuse, the state will likely benefit from treatment modalities that effectively reduce the incidence of substance abuse among parents involved in dependency court.

Prior Subcommittee Hearing: At its March 18 hearing, the Subcommittee considered testimony regarding the potential of realizing foster care savings through the establishment of dependency drug court programs. The Subcommittee directed staff to work with stakeholders to document the level of foster care savings to be realized through dependency drug courts and to consider strategies to improve access to treatment for parents involved in dependency court.

Staff review of available outcome data suggests that dependency drug court programs may generate foster care savings. However, available data is likely insufficient to establish a conclusive relationship between funding dependency drug courts and realizing state savings. The state may wish to provide non-General Fund resources to support development of dependency drug courts and examine the extent to which the courts succeed in generating state savings.

Staff recommendation: Appropriate $250,000 from the Children's Trust Fund to DADP for support of dependency drug court programs. Adopt placeholder trailer bill legislation to require, as a condition of receiving funding, that programs report specified outcomes including: (1) rates of reunification, (2) number of days in foster care, (3) the length of time to permanency plan, and (4) the number of substance-free newborns.

2. Office of Problem Gambling

Background: AB 673, (Chapter 210 Statutes of 2003), seeks to reduce the incidence of problem gambling in California. It requires the Department of Alcohol and Drug Programs (DADP) to establish the Office of Problem Gambling to develop a comprehensive gambling prevention program for problem gamblers. The program must include: public awareness and prevention efforts; a toll-free information and referral telephone service; empirically driven research programs; and training of health care professionals, educators, law enforcement, non profit organizations and gambling industry personnel in the identification of problem gambling behavior and knowledge of referral services and treatment programs.

The Budget Act of 2003 provided $3 million from the Indian Gaming Special Distribution Fund to support implementation of the program. The Governor's Budget for 2004-05 proposed to eliminate funding for the Office of Problem Gambling and to repeal the requirement that DADP establish the Office of Problem Gambling.

Finance letter: A Department of Finance letter requests that the Legislature provide a $3 million augmentation from the Indian Gaming Special Distribution and 3 new positions to support the establishment of the Office of Problem Gambling.

According to DADP, 30 percent of persons who need alcohol and other drug treatment are compulsive gamblers and possibly 50 percent of compulsive gamblers abuse alcohol/drugs. Governmental agencies in at least 16 other states are working to address problem gambling.

Subcommittee request: The Subcommittee has requested that the Administration discuss the relationship between compulsive gambling and substance abuse and its budget proposal.

Staff recommendation: Adopt the Finance letter request to retain the requirement that the DADP establish the Office of Problem Gambling and to provide associated funding and staff support.

5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and to maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation Services program, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies. The department provides habilitation services, vocational and supported employment services for persons with developmental disabilities, using state funds and federal Home and Community Services Medicaid reimbursements. It also provides support services for Community Rehabilitation Programs, including independent living centers. The budget is anticipated to be $350.6 million ($44.2 million General Fund) in the budget year. It reflects a 26 percent decrease from prior-year funding resulting from the transfer of the Habilitation Services program from the Department of Rehabilitation to the Department of Developmental Services.

Vocational Rehabilitation Services

Background: The Vocational Rehabilitation Services (VR) program assists individuals with disabilities to prepare for, enter into, and retain competitive employment. It is the Department of Rehabilitation's primary program and accounts for 94 percent of the department's proposed budget. Vocational Rehabilitation Program services include client assessments, counseling and guidance, purchase of individualized rehabilitation services, job skills training and job placement services. Department staff members stationed in approximately 120 field offices throughout the state deliver program services to approximately 77,000 individuals who have a full range of physical and mental disabilities.

The VR program is not an entitlement program and lacks the necessary funding to serve all eligible clients. Accordingly, the Department has established an Order of Selection process to assess applicants and to grant priority for services to persons with the most significant disabilities. Thirty-seven percent of VR cases receive SSI, SSDI or both.

VR is funded by combined federal, state, and other funds. The program receives approximately $4 dollars in federal funds for each state dollar invested and has a federally required match that can be met with General Fund, reimbursements, or third-party in-kind dollars.

Governor's Budget: The budget provides $327.4 million ($43.7 million General Fund) to support the Vocational Rehabilitation Program.

Issue A - Social Security Reimbursement Reduction

Background: When the Department of Rehabilitation (DOR) succeeds in its efforts to assist consumers who are receiving Social Security Income (SSI) or Social Security Disability Insurance (SSDI) in securing employment, thereby reducing the cost of benefits, it receives reimbursements for some of its costs from the Social Security Administration (SSA). Over the last five years, DOR has received approximately $15 million annually in SSA reimbursements. California has used these funds to offset General Fund costs, achieving state savings while maintaining program services. Specifically, the state uses SSA reimbursements to fund vocational rehabilitation counseling and placement services, the business enterprise program, and the Orientation Center for the Blind.

SSA reimbursements have declined in the current year. This decrease in SSA reimbursements has created a need for the state to backfill funding or to make program reductions.

Finance Letters: Recent Finance letters propose a series of adjustments to manage the reduction in SSA reimbursements and maintain program services. According to the Department of Rehabilitation (DOR), the proposed adjustments are necessary to avoid layoffs of VR staff, limited access to VR services, increased costs in the Habilitation Services Program and increased demand for public assistance programs, including SSI/SSP.

The Finance letters request that the Legislature: (1) reduce Social Security Reimbursement funding for personal services and local assistance by $4.3 million; (2) redirect $2.8 million from operating expenses to offset the personal services reduction; and (3) permanently redirect $4 million in savings from lower program costs to personal services.

The Administration proposes a series of reductions to permit redirection of funds to personal services. In its April Finance letter, the department proposed to eliminate a DOR contract with the Center for the Partially Sighted (CPS) for services delivered to VR consumers, as data suggested that few consumers who received services from CPS were VR consumers. Recent data provided to DOR by CPS demonstrates a higher rate of utilization. Therefore, a May Finance letter proposes to support CPS's delivery of VR services through a case services contract and to give CPS an opportunity to competitively bid for federal grant funding.

Staff recommendation: Adopt the requested reductions in SSA reimbursement funding and the proposed redirections to personal services.

Issue B - Assistive Technology

Finance Letter: The April Finance letter proposes a $960,000 reduction to assistive technology grants. These grants, which are provided to the California Foundation of Independent Living Centers, support two counselors at each center to provide outreach, community education, consumer assistance in obtaining devices, and to maintain a registry of equipment.

Staff recommendation: Adopt the requested reduction in funding for assistive technology grants.

Issue C - Caseload Adjustment

May Revision: A May Finance letter requests that the Legislature reduce VR funding by $1.4 million ($90,000 General Fund) to reflect increased caseload and decreased program costs; and make a technical correction to a Mid-Year revision. VR program costs decreased by $5.5 million from the Governor's Budget. However, the Administration proposes to redirect $4 million of the savings to offset the loss in available reimbursements.

Staff recommendation: Adopt the Finance letter.

5175 Department of Child Support Services

VOTE ONLY ITEMS:

1. Federal Incentives Funding

Background: The federal government provides states with child support incentives based on a state's program performance relative to other states. Incentives consider the establishment of paternity and support orders, collections, cost effectiveness, and data reliability.

May Revision: The May Finance Letter requests that the Legislature increase General Fund support for local child support administration by $888,000 to offset an anticipated reduction in the amount of federal child support incentives California will receive. The budget estimated that California would receive $48.8 million in federal child support incentives in the budget year.

Staff recommendation: Adopt the May Revision.

2. Child Support Recovery Fund

Background: The Department of Child Support Services (DCSS) collects child support on behalf of families receiving public assistance. These collections are generally distributed to the federal, state, and county governments as recovery of public assistance costs. Federal guidelines require the state to transfer the federal portion of assistance collections to a special account and use these funds to support program administration before drawing down federal child support funds.

May Revision: A May Finance letter requests that the Legislature make technical changes to the proposed budgets for the Department of Child Support Services to accurately reflect the use of the federal share of foster care collections.

Staff recommendation: Adopt the requested change to accurately reflect the use of federal foster care collections.

3. Child Support Administration Funding

May Revision: A May Finance letter requests that $715,000 in 2003-04 net General Fund savings be reverted. The savings stem from a lower federal penalty payment and increased federal incentives.

Staff recommendation: Adopt the May Revision.

4. Electronic Data Processing Equipment

Background: The Governor's Budget included $123,966,000 ($42,149,000 GF) for Electronic Data Processing maintenance and operations costs. The federal government has informed DCSS

that pursuant to federal depreciation rules, federal financial participation requested for hardware equipment costs needs to be claimed over a five-year period.
May Revision: A May Finance letter requested a $440,000 General Fund increase to backfill reduced federal financial participation resulting from the requirement that hardware equipment costs be claimed over a five-year period.

Staff recommendation: Adopt the May Revision.

5. California Child Support Automation System

Background: Federal law requires states to have a single statewide system for the collection of child support. Since 1997, California has been subject to substantial federal penalties due to the state's failure to establish the required system by the federal deadline. The penalty level is based on a percentage of program administration costs and the percentage rises over time. California has reached the maximum percentage level and is estimated to pay $220 million in 2004-05.

California is in the process of developing the California Child Support Automated System (CCSAS) which when implemented on a statewide basis will obviate federal penalties. The CCSAS Project consists of two major systems: the Child Support Enforcement (CSE) and the State Disbursement Unit (SDU). California awarded the contract for completion of the CSE in July 2003. The state and the contractors have begun development of the CSE. The project is progressing on schedule. In addition, the DCSS and Franchise Tax Board (FTB) have issued an RFP (request for proposal) for the SDU procurement. They expect to receive multiple proposals and to award the contract by December 2004, and implement the system as soon as September 2005.

California is considering the feasibility of applying for federal certification of the new CCSAS system by September of 2005. Federal approval of early certification would reduce California's alternative federal penalty by 90 percent in 2005-06.

Governor's Budget: The budget provides $163.3 million in total funding for the CCSAS Project, of which $48.7 million General Fund is in FTB's budget.

May Revision: A May Finance letter requests the following changes relative to the CCSAS Project. The letter requests: (1) a $27.3 million ($6.2 million General Fund) augmentation to support CCSAS activities, including interface modifications on two local automation systems; (2) budget bill language that would allow the Department of Finance to augment funding for the CCSAS project and State Disbursement Unit, if needed, to achieve certification (augmentations would require a 30-day notification to the Legislature); and (3) budget bill language to reappropriate prior-year funds for county conversions to reflect changes in the project schedule.

At its May 6 hearing, the Subcommittee considered the Governor's proposed funding for CCSAS and directed staff to develop language to require DCSS and FTB to report on the status of the project at budget hearings. The Subcommittee may wish to adopt the following language:

The DCSS, FTB, and Department of Finance shall jointly report during the annual budget subcommittee hearings on the status of the Child Support Automation Project in meeting 2004-05 major milestones in the project schedule such as documentation of the software requirements for the design of Version 2, award of the State Disbursement Unit contract, and conversion of the remaining 14 counties to CASES.

Staff recommendation: Adopt the Finance letter and adopt the proposed budget bill language to require FTB and DCSS to report on the status of CCSAS at budget hearings.

6. Alternative Federal Penalty

Background: California is subject to substantial federal penalties due to the state's failure to establish a single statewide system for the collection of child support by the federal deadline. The penalty level is based on a percentage of program administration costs and the percentage rises over time. California has reached the maximum percentage level and is estimated to pay $220 million in 2004-05.

Current law provides for payment of the penalty through a reduction in federal funds for state and county administration of the child support program. Since 1997, California has waived the mechanism for paying the penalty through a reduction in county child support program funds and has appropriated General Fund dollars to pay for the penalty. Last year, the Legislature enacted a one-year 25 percent county share of the alternative federal penalty.

Governor's Budget: The budget appropriates $220 million General Fund for payment of the alternative federal penalty in the budget year. It also proposes to establish a permanent 25 percent county share of the alternative federal penalty for General Fund revenues of $55 million.

The Department of Finance recently informed the Subcommittee that the federal government has allowed the state to pay the federal fiscal year 2005 penalty by September 30, 2005. Therefore, the state does not need to appropriate funds to pay the penalty in the budget year.

Staff recommendation: (1) Eliminate the proposed $220 million for payment of the alternative federal penalty in the budget year. (2) Reject the proposed legislation to require a county share of the alternative federal penalty. (3) Reduce the DCSS's revenue estimate by $55 million.

7. Eliminate County Share of Child Support Collections

Background: Counties receive a portion of child support collections from the distribution of collections made on behalf of families receiving cash assistance or children participating in the Foster Care Program. The county share of child support collections is intended as a mechanism for public assistance cost recovery and is consistent with the county-share of funding for CalWORKs aid payments and Foster Care Payments. The funds are considered county general fund revenues. However, most counties dedicate the county share of child support collections to support human services programs.

Governor's Budget: The budget proposes to eliminate payment of the county share of child support collections for an increase in General Fund revenues of $39.4 million. The budget indicates that the proposal is in lieu of a reduction to the Child Support program. The Governor's proposal will most likely reduce funding for human services programs, including child welfare services and child support services, and may increase demands for county realignment funds.

Staff recommendation: Reject the Governor's budget proposal.

5180 Department of Social Services

VOTE ONLY ITEMS

1. Proposed Legislation to Repeal Various Items in State Statute

Through proposed trailer bill legislation, the budget proposes to repeal the following enacted legislation:

- **AB 408 (Chapter 813, Statutes of 2003) - Foster Children Relationships**
  AB 408 modified dependency laws in an effort to increase the chances that older foster children will be permanently placed with adoptive families, and to help older foster children maintain relationships with individuals who are important to them.
- **AB 529 (Chapter 744, Statutes of 2003) - Children in Family Day Care Homes**
  AB 529 allows one child enrolled in kindergarten to be treated the same as a child aged six or older for purposes of adding to the limit on the number of children who can be cared for by family day care homes.
- **SB 577 (Chapter 878, Statutes of 2003) - Protection and Advocacy agencies**
  SB 577 clarified and consolidated state laws related to California's protection and advocacy agency, Protection and Advocacy, Inc. (PAI), to conform to federal law.
- **AB 1151 (Chapter 847, Statutes of 2003) - Duty to Foster Children**
  AB 1151 established legislative intent that the "state has a duty to care for and protect the children that the state places into foster care" and extended the statute of limitations for a claim of injury or death of a minor in foster care.

Staff Comment: The purpose of trailer bill legislation is to enact provisions of state statute that are necessary to implement the Budget Act. The Administration proposes trailer bill legislation that is not necessary to implement the Governor's Budget. The proposed language would repeal recently enacted legislation considered by the Legislature through the policy process.

Staff recommendation: Reject the proposed trailer bill language.

2. Suspension of State Mandate

Background: California law requires that child abuse defendants successfully complete no less than one year of treatment and counseling as approved by the county probation department. The Commission on State Mandates ruled that the recent law, which requires county probation departments to approve treatment and perform activities associated with the defendant's progress reports, constitutes a state mandate. The Legislature suspended this mandate in the current year.

Governor's Budget: The budget proposes to suspend this mandate for the budget year.

Staff recommendation: Adopt the proposed mandate suspension.

3. Immigrant Programs

Background: California funds and operates various human services programs that provide safety net services to legal immigrants who are aged, blind or disabled and to legal immigrant families. Program services include food assistance, cash assistance, and welfare-to-work services for eligible individuals and families. The programs include:

- Cash Assistance Program for Immigrants (CAPI), which provides cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform.
- California Work Opportunity and Responsibility for Kids (CalWORKs) for a legal immigrants program which provides cash assistance and welfare-to-work services to otherwise CalWORKs eligible parents or caretaker relatives who are legal immigrants that have been in the United States for five years or less.
- California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens.

Governor's Budget: The Governor proposed legislation to cap enrollment for various human services programs, effective April 1, 2004, as part of his proposed Mid-Year reductions. The Governor's Budget assumes implementation of the proposed enrollment caps for total current year and budget year General Fund savings of $4.5 million. The Governor's Budget also proposes to eliminate CAPI, CFAP and CalWORKs for legal immigrants and instead provide block grant funding to counties to support safety net programs for immigrants effective October 2004 for a General Fund savings of $5.9 million.

Staff comment and Chair's recommendation: The Subcommittee considered the Governor's proposed cap to enrollment and block grant for various human services programs at its April 15 hearing. The Chair's recommendation at the April 15 hearing was to reject the Governor's proposals and to direct Subcommittee staff to develop alternative proposals to achieve savings including implementation of SSI advocacy efforts across the state to reduce the CAPI caseload.

At the Chair's direction, Subcommittee staff has developed placeholder trailer bill legislation to implement SSI advocacy efforts statewide for net General Fund savings of $3.1 million in the budget year. The proposed legislation requires counties to assist CAPI applicants/recipients in the application process for the SSI program and permits counties to contract for the provision of these services. The legislation would also require DSS to reimburse counties for legal fees incurred during successful SSI appeals, subject to a cap.

May Revision: The May Revision rescinds the Governor's proposed enrollment caps and block grants for human services programs serving immigrants and requests that the Legislature restore $5.7 million in program funding.

Staff recommendation: (1) Rescind the proposed enrollment caps and block grants; (2) Restore program funding; (3) Adopt placeholder trailer bill legislation to implement SSI advocacy efforts across the state; and (4) Reduce funding for CAPI by $3.1 million General Fund.

4. Increase in Background Check Workload

Background: The Community Care Licensing Division (CCLD) oversees eighteen types of community facilities that provide care and supervision to Californians. CCLD requires that individuals receive a fingerprint-based check of their criminal history from both the Department of Justice and the Federal Bureau of Investigation. Persons associated with children's facilities are also subject to a check with the Child Abuse Central Index. If criminal history information indicates a conviction, CCLD evaluates the circumstances to determine if the individual can be involved in a licensed facility. If an arrest is identified, CCLD will independently investigate the circumstances of the arrest to determine if the individual should be allowed to have contact with clients in a facility. If an individual is determined to be unsuitable, CCLD will deny an associated license application, revoke or suspend an existing license, or exclude the person.

Since 2002, CCLD has experienced a significant increase in the number of subsequent arrests and subsequent convictions information that it receives. Historically, CCLD received 580 rap sheets from DOJ each week, or an estimated 33,000 per year. CCLD now receives 1,559 rap sheets per week, or an estimated 81,000 per year. The number of rap sheets received by CCLD and the resulting workload continues to rise.

Governor's Budget: The budget provides a $4.6 million augmentation ($2.6 million General Fund) and establishes 58.2 new positions due to the increase in the number of rap sheets received by CCLD and the resulting increase in background check workload.

The Subcommittee considered the proposed funding and position increase at the May 10 hearing. The Chair directed staff to develop trailer bill legislation that requires the Health and Human Services Agency to examine existing background check processing, develop alternatives to streamline and standardize background check processing within departments under the Agency, and report to the Legislature at budget hearings.

May Revision: A May Finance letter requests an increase of $334,000 in federal funds and one new position to support conviction information processing for individuals licensed by the DHS and the DSS. The proposal may reduce workload associated with investigating arrest reports.

Staff recommendation: Approve the May Finance letter. Adopt trailer bill language that requires the Health and Human Services Agency, to the extent feasible, to examine existing background check processing, develop alternatives to streamline and standardize background check processing within departments under the Agency, and report at budget hearings.

5. State Council on Developmental Disabilities

Background: The Department of Social Services (DSS) provides administrative support to the State Council on Developmental Disabilities (State Council). Specifically, the state assists the Council with routine accounting, personnel and business services functions.

Governor's Budget: The budget provides $651,000 in increased reimbursements and establishes 6.8 positions for DSS to provide administrative support to the State Council. The Subcommittee approved 4 positions and $390,000 in reimbursements to support the DSS workload.

May Revision: A Finance letter requests that the Legislature reduce the proposed reimbursement authority by $162,000 to reflect the level of reimbursements that was already included in the DSS budget for support of the State Council.

Staff recommendation: Adopt the requested $162,000 reimbursement authority decrease.

6. Community Care Licensing

May Revision: A May Finance letter requests a $678,000 increase in federal funding to upgrade 87.8 supervisory positions. The request is consistent with a directive from the Department of Personnel Administration to DSS relating to field operations managers and supervisors.

Staff recommendation: Adopt the requested increase in federal funding.

7. Caseload Adjustments

May Revision: A May Finance letter requests the following adjustments to the Governor's Budget:

(1) $17.1 million increase ($9.4 million General Fund) to children and adult services programs due to Child Welfare Services caseload growth and funding increases for relative home approvals, county self-assessments and peer quality care reviews;
(2) $3.8 million augmentation ($1.3 million General Fund) to county administration and automation project funding (General Fund increase is primarily attributable to a higher CFAP caseload estimate); and
(3) $177.2 million increase (a reimbursement increase of $178.9 million and a $1.7 million General Fund decrease) due to a decrease in the IHSS caseload estimate, an increase in the SSI caseload, and an increase in federal funding for the IHSS program.
(4) $46.4 million increase (a federal funding increase of $51.7 million and a $5.3 million General Fund decrease) for assistance payments to reflect revised caseload estimates.

Staff recommendation: Adopt the requested increases in local assistance.

DISCUSSION ITEMS:

I. Child Welfare Services

Background: The Child Welfare Services (CWS) system provides a range of services to protect children from abuse, neglect and exploitation. The services are designed to prevent, help alleviate and remedy the problems that cause abuse, neglect or exploitation of children. The services also work to prevent the unnecessary separation of children from their families; arrange to restore children to homes from which they have been removed; and identify children who should be temporarily or permanently removed from their homes. CWS serves an estimated 174,000 youth each month.

Governor's Budget: The budget provides $2.1 billion total federal, state and county funds ($610.3 million General Fund) to support the CWS system.

VOTE ONLY ITEMS:

Issue A - Program Improvement Plan Funding

Background: Federal law required California to negotiate with the federal government a Program Improvement Plan (PIP) to address system deficiencies identified in the Child and Family Services Review and to improve the state's outcomes. The PIP outlines steps California will take to improve its outcomes; includes timeframes for achieving improvement; and commits to dozens of specific program performance improvements and thousands of specific action steps.

Governor's Budget: The budget provides $10.6 million ($749,000 General Fund) in the budget year to support state and county activities associated with the state's Program Improvement plan.

May Revision: The May Revision reduces the amount of TANF funds transferred from CalWORKs to support PIP activities and reduces overall funding by $25,000.

Staff recommendation: Adopt May Revision adjustments to PIP funding and reject proposed TANF funding for PIP activities.

Issue B - Child Welfare Outcomes and Accountability System

Background: California has been engaged in the development and implementation of a new system, based on federal performance reviews, to measure specific county outcomes. Assembly Bill 636 (Steinberg) requires California to establish an outcome-based system to evaluate county operations of child welfare services. The new California Child Welfare Outcomes and Accountability System includes web-based reporting of county outcomes, and requires counties to conduct self-assessments and develop system improvement plans. AB 636 will provide unprecedented access to county specific information about child welfare services program outcomes and will yield county specific plans to improve program performance.

Governor's Budget: The budget provides $9.5 million ($3.2 million General Fund) in the budget year to fund Child Welfare Outcomes and Accountability System activities.

May Revision: The May Revision increases funding for AB 636 implementation by $2.9 million ($2.2 million General Fund) to support the development of county self-assessments, development of county improvement plans and peer quality case reviews.

Staff recommendation: Adopt May Revision adjustments.

DISCUSSION ITEMS:

Issue A - Child Welfare Services Redesign

Background: California recently concluded its three-year CWS Stakeholders Group process, which examined California's child welfare services programs and recommended changes. The group released its CWS Redesign report in September 2003. The Redesign outlines a broad long-term plan to improve the child welfare services system. The plan includes the development of partnerships between CWS agencies and community based organizations, as well as efforts to improve access to preventative services and supportive services for families.

The CWS Redesign articulates the Stakeholders' vision for the Child Welfare Services system and discusses strategies to realize that vision. It does not constitute an implementation plan. The Redesign does not outline the law, regulatory and practice changes necessary for implementation. It does not provide an estimate of costs or specify measurable outcomes. Implementation of the Redesign may require changes in state and federal law and regulations. Redesign implementation may also require significant increases in program funding.

Governor's Budget: The budget provides $19.1 million ($558,000 General Fund) in the budget year to support various CWS Redesign activities.

The Subcommittee considered the proposed funding for the CWS Redesign at the March 18 hearing and voted to reject the proposed funding and redirect savings to offset TANF funding for AB 636 and PIP activities. The Subcommittee expressed willingness to reconsider the Redesign proposal during the May Revision, contingent on the development of an implementation plan.

May Revision: The May Revision provides $18.7 million ($558,000 General Fund) to support Redesign activities including development and implementation of a standard safety assessment system and differential response in 11 counties.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services respond to the following questions:

1. Please describe the CWS Redesign and the current Redesign implementation strategy.
2. Please describe the proposed funding increase, the specific activities to be supported by the funding and the measurable outcomes to be achieved.
3. Has the Department prepared a Redesign implementation plan including necessary changes to state and federal law, costs of implementation and measurable outcomes?

Staff recommendation: (1) Adopt $8.2 million to fund CWS Redesign activities; (2) Redirect $6 million in proposed Redesign funding to support PIP activities; (3) Conform to the Assembly action to adopt budget bill language to allow DSS to reappropriate unspent current year Redesign funding in the budget year.

Issue B - Senate Bill 2030 and the CWS Augmentation

Background: Senate Bill 2030 (Costa), Chapter 785 of the Statutes of 1999, required that the Department of Social Services conduct an independent evaluation of the adequacy of the state's child welfare services budgeting methodology, and funded caseload and service levels, and to make recommendations to the Legislature. The SB 2030 Child Welfare Services Workload Study found that caseworkers were seriously overburdened and carrying much larger caseloads than were ideal. The study recommended that California implement minimum caseload standards, devise and implement a staff recruitment plan, as well as revise its budget methodology.

Assembly Bill 2876, Chapter 108, Statutes of 2000, required the DSS to develop a plan to implement the recommendations of the SB 2030 study. Among the actions proposed by a workgroup formed to advise the department on implementation was the adoption of minimum caseload standards and phased-in augmentations to reach the proposed minimum standards by the 2005-06 fiscal year.

Beginning in 1998, the Legislature and the Administration provided an augmentation to the CWS program to address program under-funding and provide workload relief. Assembly Bill 1656, Chapter 324, Statutes of 1998, authorized an initial CWS program augmentation of $40 million General Fund. Assembly Bill 1740, Chapter 52, Statutes of 2000 provided an additional augmentation of $34.3 million General Fund. In 2002-03, then Governor Davis reduced the CWS augmentation by $17.2 million and reduced CWS program funding by another $10.8 million for a total reduction in state funding for CWS of $28 million.

Counties are not required to provide a match for the CWS Augmentation. However, they are required to fully match their base CWS allocations to receive these funds.

May Revision: The May Revision proposes to add a county share-of-cost to the CWS Augmentation for General Fund savings of $17 million. The proposal extends the county share-of-cost for the CWS base program to the CWS Augmentation.

Counties oppose the proposed county match requirement for the CWS Augmentation and estimate that it would result in the loss of 212 front-line child welfare workers. If counties are unable to generate the required funds, CWS funding could decrease by as much as $90 million and result in the loss of 700 social workers. The reduction would coincide with a period of increased state and federal scrutiny of CWS, when the state faces the potential of federal penalties for its program performance.

Subcommittee request: The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Describe the May Revision proposal and its impact on funding for Child Welfare Services.
2. How will the proposal impact local child abuse prevention and intervention services?
3. What is the interaction between the proposed county-match requirement, proposed foster care reforms, the federally required Program Improvement Plan, and state efforts to reduce the foster care caseload through the provision of preventive and supportive services to families?

Staff recommendation: Reject the Governor's May Revision proposal.

II. Foster Care Program

Background: The Foster Care program provides support payments for children in out-of-home care as a result of a judicial order or a voluntary placement agreement. The program provides payment to foster care service providers, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. The program is administered by the Department of Social Services and operated by county welfare departments. It serves an estimated average of 78,700 youth a month, reflecting a 1.2 percent increase in caseload in the budget year.

Governor's Budget: The budget provides $1.8 billion ($462.8 million General Fund) to support the foster care system.

VOTE ONLY ITEMS:

Issue A - Child Support Recovery Fund

Background: The Department of Child Support Services collects child support on behalf of families receiving public assistance. These collections are generally distributed to the federal, state, and county governments as recovery of public assistance costs. Federal guidelines require the state to transfer the federal portion of assistance collections to a special account and use these funds to support program administration before drawing down federal child support funds.

May Revision: A May Finance letter requests that the Legislature make technical changes to the proposed budgets for the Department of Child Support Services and the Department of Social Services to accurately reflect the use of the federal share of foster care collections.

Staff recommendation: Adopt the Finance letter.

Issue B - Implementation of *Rosales* v. *Thompson*

Background: The Ninth Circuit court decision in *Enedina Rosales and the California Department of Social Services v. Tommy G. Thompson* (321 F.3d 835) significantly expanded eligibility for federal foster care funding to thousands of low-income relatives caring for foster children. Under *Rosales*, a child who lived, at any time during the six months prior to removal or at the time of removal with a relative, is federally eligible for foster care because only the child's income will be taken into account when conducting the means test. Prior to the court decision, relatives who were caring for children who were deemed ineligible for the federal foster care program were provided with a CalWORKs child-only grant ($350 per month). Under the new eligibility rules, families will receive a regular foster care grant (an average of $678 per month).

The court recently ruled that the *Rosales* decision applies retroactively back to December of 1997 in cases that were open on March 3, 2003. Relatives, if found otherwise eligible for a foster care payment, will receive a payment for the difference between the CalWORKs grant and the Foster Care grant for the relevant months back to 1997.

Governor's Budget: The budget increases foster care funding by $36.7 million ($7.5 million General Fund) to implement the *Rosales v. Thompson* court decision. The budget reflects an offsetting reduction in CalWORKs costs of $14.1 million in the budget year.

The Legislative Analyst's Office comments in their analysis that the budget understated General Fund savings associated with implementation of the *Rosales* decision and estimated potential General Fund savings of $5.3 million. The Subcommittee adopted the LAO's estimated level of savings at its March 18 hearing.

May Revision: A May Finance letter requests that the Legislature increase program funding by $25.8 million ($3.8 million General Fund) to implement the *Rosales v. Thompson* court decision. The May Revision assumes savings from more children becoming eligible for federally funded foster care and adoption assistance payments. Overall, implementation costs have increased as the decision is now retroactive.

Staff recommendation: Rescind the prior Subcommittee action and adopt the May Revision.

DISCUSSION ITEMS:

Issue A - Relative Home Assessment

Background: The federal Adoption and Safe Families Act (ASFA) requires that states apply the same licensing standards to both relative provider and foster family homes. Assembly Bill 1695, Chapter 653, Statutes of 2001, establishes state requirements that mirror the federal requirement and mandates that counties conduct an in-home assessment prior to placing a child in the home of a relative or the home of a non-relative extended family member. In addition to the state requirement, federal law requires counties to conduct additional in-home assessments when one or more relatives or non-relative extended family members seek approval to have a related foster child placed with them. During in-home assessments counties evaluate the safety of the home and the ability of the relative to care for the child. Counties are required to visit all willing relatives or non-related extended family members to establish viable placement options.

In 2002, California's licensing practices for relative home providers were challenged in *Higgins v. Saenz.* The State was essentially out of compliance with the federal requirement that licensing standards be the same across foster homes. California negotiated a settlement in the case, which will bring the state into compliance with federal requirements. In addition to the court action, the federal government found California out of compliance with federal law leading to a loss of $45 million in federal funding. Since November 2001, the state and counties have been working to demonstrate compliance with the federal requirements and achieve restoration of federal funding.

Governor's Budget: The budget provides $12 million to support the required home assessments.

May Revision: The May Revision increases funding for required assessments to $15.4 million. It assumes that the assessments can be completed in seven hours. Counties report that the average time to complete an assessment is 16 hours and that the proposed funding level is insufficient funding to complete the relative home assessments required by state and federal law.

Staff recommendation: Adopt the May Revision funding increase for relative assessments.

III. California Work Opportunity and Responsibility to Kids (CalWORKs)

Background: The California Work Opportunity and Work Responsibility to Kids (CalWORKs) provides cash benefits and welfare-to-work services to 1.2 million children and their parents or caretaker relatives. The average family of three must have an annual net income below $11,772 or 77 percent of the federal poverty level, have less than $2000 in resources, and cannot have a car valued at more than $4,650 to become eligible for CalWORKs. A family of 3 receiving CalWORKs can earn up to $19,596 per year and remain eligible for aid due to California's earned income disregards. CalWORKs recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work activities per week (35 hrs. for two parent families) to remain eligible for benefits.

CalWORKs is overseen by the California Department of Social Services and administered locally by counties. State law establishes eligibility criteria and benefits, and grants counties considerable flexibility to design welfare-to-work services that reflect local conditions and priorities. Counties are provided block grant funding to support program services.

Summary of Enrollment: After peaking in March of 1995, CalWORKs enrollment has dropped by 48.7 percent through 2003. Enrollment decreased by 34.3 percent since the CalWORKs program was implemented in 1998. After years of declines, CalWORKs caseload has become relatively stable. DSS estimates that enrollment will decrease by 1.4 percent in the current year increase slightly in the budget year.

VOTE ONLY ITEMS:

Issue A - CalWORKs Grants

Governor's Budget: The budget proposes to (1) reduce CalWORKs grants by 5 percent, (2) delink CalWORKs COLAs from the Vehicle License Fee, (3) suspend CalWORKs COLAs, and (4) reduce Safety Net grants for cases with non-working adults by 25 percent for total General Fund savings of $352.9 million and $216.3 million in cost avoidance.

The following chart illustrates the impact of Governor's Budget on a CalWORKs family of 3 that has no other income and receives the maximum aid payment:

CalWORKs Grant (Families with no other income)	
Current Grant for a Family of 3	$704
October COLA	24
July COLA	21
Grant Under Current Law	**$749**
Total Grant after 5% Grant Reduction	$669
Offsetting Increase in Food Stamps	$37
Lost Income to Families	$43
Work Hours per Month to Replace Income Loss	6.4

(1) <u>CalWORKs grant reduction</u>

<u>Governor's Budget:</u> The budget reduces the maximum aid payment under CalWORKs by 5 percent to $669 for a family of 3 for General Fund savings of $226.4 million.

The budget reduces CalWORKs grants for a family of 3 by $35 per month. An average family of 3 with no earned income will experience a decrease in their income from 77 to 75 percent of the federal poverty level or from $981 to $962 per month. In addition to reducing the resources of families on CalWORKs, the proposed grant reduction will make 8,000 families ineligible for assistance. Since 1990 rent prices have increased by 41 percent and the purchasing power of a CalWORKs grant has declined by 32.3 percent.

<u>May Revision:</u> The May Revision maintains the Governor's proposal to reduce CalWORKs grants by 5 percent, but delays the effective date for the reduction to October, reducing budget year savings by $57.8 million.

<u>Staff recommendation:</u> Reject the Governor's proposal and restore program funding.

(2) <u>CalWORKs Cost-of-Living Adjustment Suspension</u>

<u>Background:</u> Current law provides an annual cost-of-living adjustment for CalWORKs grants that is based on the California Necessities Index. Historically, the CalWORKs COLA becomes effective on July 1 of every year. Legislation that had delayed the effective date of the COLA to October 1 expires in the current year making July 1 the effective date for future COLAs.
The July 1, 2004 CalWORKs cost-of-living adjustment will increase the maximum CalWORKs grant by $21 per month. Under current law, the maximum CalWORKs grant for a family of 3 will increase to $749 per month in the budget year.

Governor's Budget: The budget proposes to suspend the annual CalWORKs COLA in the 2004-2005 fiscal year to generate savings of $98.5 million General Fund. Suspension of the cost-of-living adjustment will maintain grants at their current level and will not keep pace with cost-of-living increases such as rising housing costs.

The Governor also proposes legislation to permanently change the effective date for the CalWORKs COLA to October 1.

Staff recommendation: Reject the Governor's proposals and restore program funding.

(3) Safety Net Grant Reduction

Background: TANF and CalWORKs establish a 60-month lifetime limit for receiving CalWORKs assistance for adults, unless they meet specified exemption criteria, such as being a victim of domestic violence, being disabled or being over 60 years of age. Upon reaching their time limit, parents are discontinued from aid. Most families continue to receive a safety net grant, which excludes the adult from the grant unit.

Governor's Budget: The budget reduces Safety Net grants received by families with non-working adults by 25 percent for General Fund savings of $23.4 million in 2004-05.

Staff recommendation: Reject the Governor's proposal and restore program funding.

Issue B - Tribal TANF Programs

Background: Federal welfare reform legislation authorizes Indian tribes, or tribe consortia, to operate TANF programs. Tribes with an approved Tribal Family Assistance Plan are granted the administrative authority to operate a TANF program and receive program funding to meet benefit, administrative, and welfare-to-work service costs. Tribal TANF programs, like county programs, are accountable for delivering services and achieving program outcomes, including moving families from welfare to self-sufficiency.

California currently has six approved Tribal TANF programs. The programs are funded with combined federal and state dollars. Tribes receive federal funding for Tribal TANF programs directly from the federal government based on the number of Native American families that received cash assistance in the 1994 Federal Fiscal Year.

State law provides for General Fund support for tribal TANF programs. The amount of General Fund support is also based on the FFY 1994 caseload. According to DSS, a portion of state funding for tribal TANF programs comes from funds shifted to the tribes from the single allocation of the counties in which the tribes are located. Native American families have the option of receiving CalWORKs services, including grants, from the county where they reside or from the tribe.

Governor's Budget: The budget reduces state funding for Tribal TANF programs by $30.5 million. Federal funding for Tribal TANF programs remains at the prior-year level and is based on the federal fiscal year 1994 caseload levels.

The Governor's Budget provides state funding for tribal TANF programs at the FFY 1994 caseload level for the first two years of operation. After two years, state funding for the programs will be based on actual program caseload.

Constituency Comments: The California/Nevada Tribal TANF Administrators' Association opposes the Governor's Budget proposal and argues that it would have a disproportionate impact on programs serving the neediest Californians. Counties support the Governor's proposal to base state funding for tribal TANF programs on actual caseload and argue that as the state has chosen to reduce county allocations to fund tribal TANF programs, it is critical to have a process to allocate funding to where clients are being served.

Staff recommendation: (1) Adopt budget bill language to reappropriate $15.5 million in current year unspent Tribal TANF funds to fund the programs in the budget year; and (2) maintain $15 million reduction in program funding to be implemented as an across the board reduction to all the Tribal TANF programs.

Issue C - CalWORKs Employment Services and Administration Funding

Background: County welfare departments are responsible for the local development and implementation of CalWORKs. They receive block grant funding and are given substantial flexibility to design and carry out the CalWORKs program within the state and federal program guidelines.

Counties receive a single allocation to fund CalWORKs Stage 1 childcare, employment services, transportation and program administration. Program administration funding supports eligibility determination, case management services, fraud prevention, and issuance of grants. Counties have some flexibility to move funds from one type of expenditure to another within their single allocation.

County single allocations were established during the implementation of CalWORKs and were based on each county's estimate of the funding level necessary to fund their CalWORKs program. The allocations were reviewed and adjusted to reflect actual costs in 1998-99 and 1999-00. California has maintained counties at the 2000-01 funding level in subsequent years.

Governor's Budget: The budget (1) suspends county cost of doing business adjustments; (2) reduces single allocation funding due to the impact of time limits on caseload; (3) reduces single allocation funding due to the implementation of prospective budgeting; and (4) maintains the $191.9 million funding increase for employment services.

May Revision: The May Revision adjusts funding for employment services and administration to reflect a lower level of savings from the implementation of prospective budgeting, increased child care costs, and a higher level of savings from parents reaching their CalWORKs time limit. Funding for CalWORKs employment services and administration, excluding child care, decreases by $162.6 million between the current year and the budget year.

Staff recommendation: (1) Restore $100 million for CalWORKs employment services and administration. (2) Adopt trailer bill legislation to reappropriate to counties unspent current year CalWORKs single allocation funds by October 1, 2004.

Issue D - Work Participation Reforms

Background: CalWORKs recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work activities per week (35 hrs. for two parent families) to remain eligible for benefits. Recipients can satisfy work participation requirements within the first 18 to 24 months by being employed, participating in activities that will lead to employment, including education and training programs, or participating in activities that reduce barriers to employment such as receiving substance abuse or mental health treatment. After the 18-24 month period, recipients must participate in employment or supervised community services to continue receiving aid.

Governor's Budget: The Governor proposes to (1) require job search as a condition of eligibility; (2) to require most adults receiving CalWORKs to work or participate in work related activities for at least 20 hours per week, within 60 days of receipt of aid; and (3) to require all aided adults to sign a Welfare-to-Work Plan within 60 days of receipt of aid, or up to 60 days after completion of job search. The reforms seek to strengthen the program's focus on work and to increase California's work participation rate.

May Revision: The May Revision modifies the Governor's proposed reforms to authorize (instead of require) counties to require job search as a condition of eligibility. The May Revision estimates that the Governor's proposed reforms will generate net savings of $32.9 million.

Staff comment: The Governor's proposed changes are consistent with (although more restrictive than) some Congressional TANF Reauthorization proposals, which limit the activities that can be counted towards fulfillment of work requirements. The proposed reforms constitute a significant departure for the current CalWORKs model, which grants counties flexibility in design programs that reflect local priorities and conditions. Enactment of the Governor's proposed reforms will most likely not obviate the need to make changes to the CalWORKs program when Congress approves Reauthorization.

Staff recommendation: Reject the Governor's proposed reforms and restore program funding.

Issue E - Reduces Grants in Sanction Status by 25 percent

Background: CalWORKs requires adults receiving cash assistance to participate in work activities and meet program requirements as a condition of receiving aid. Participants who fail or refuse to comply with program requirements, without good cause, are subject to a program sanction. Adults may be sanctioned for failing or refusing to comply with the following requirements: signing a welfare-to-work plan; participating in an assigned activity; providing required proof of progress in an activity; accepting or continuing employment; and continuing employment at the same level of earnings. Prior to sanctioning a client, counties must determine that the client is not complying with program requirements; attempt to contact the client by mail and by phone to inform the client that s/he may be sanctioned; and provide the client an opportunity to comply with program requirements.

Governor's Budget: The Governor proposes a 25 percent reduction of the grant received by families with an adult who is not complying with CalWORKs requirements after one month of non-compliance. The proposal results in net costs of $22.8 million.

Staff recommendation: Reject the Governor's proposal and reduce program funding accordingly.

Issue F - Child Care Reforms

Governor's Budget: The Governor's Budget proposes a number of reforms to the CalWORKs and non-CalWORKs subsidized child care systems including changes in program eligibility, family fees, and provider reimbursement. The proposals will generate $33.4 million in Stage 1 child care savings. These savings are built in to the Governor's Budget.

	Current law	**Governor's Budget**
Age Eligibility	Children up to age 13 are eligible for both CalWORKs and non-CalWORKs child care.	Eliminate eligibility for 11 and 12 year olds if after-school programs are available. Grants these children priority for placement in after school programs. ***($75.5 million savings; 18,000 children lose eligibility and move to after-school programs.)***
Stage 3 Child Care	Former CalWORKs participants are eligible for Stage 3 as long as they meet income and age eligibility.	Limit Stage 3 child care to one year (in addition to two years in Stage 2). Families currently in Stage 3 would receive one additional year.
Reimbursement Rates	Providers are reimbursed at up to 85th percentile of the RMR.	Creates a six-level reimbursement rate structure that reimburses providers between 40th and 85th percentile of the RMR, depending on licensure, training, and whether they serve private pay clients. ***($57.7 million savings; 95,592 children impacted.)***

*Source Legislative Analyst's Office.

The Governor's Budget would permit a CalWORKs family to seek general child care and sign up on the general child care waiting list as soon as they have earnings. This change would facilitate the integration of CalWORKs families into the general child care system.

Lastly, the Governor proposes legislation to enhance the ability of counties and Alternative Payment Providers to collect overpayments made for child care services. It allows Alternative Payment Providers (AP) to collect overpayments from child care providers and families, changes the definition of a "clear-contract" for APs to reference eligibility, reimbursements, family fees, and overpayments and allows overpayments to be recouped through a reduction in the grant level or the child care subsidy. Counties would keep 12.5 percent of all overpayments collected.

May Revision: The May Revision makes changes to the Governor's proposed reforms, decreases the estimated savings by approximately $45 million, primarily due to a reduced level of savings assumed from the proposed transition of 11 and 12 year olds to after school programs. The May Revision makes the following changes to the proposed reforms:

- Allows current recipients of Stage 3 child care to shift into guaranteed slots in existing general subsidized child care programs without time limits. Non-aided recipients of Stage 1 and 2 child care would be eligible for two years of Stage 3 eligibility when they reach Stage 3.
- Creates an exception to the proposed limitation of child care to two years for families participating in a training or education program when the family is working at least 20 hours per week.
- Proposes a $3.1 million increase to support 35 new county fraud investigator positions, for net costs in the budget year of $1.6 million. The May Revision also proposes trailer bill legislation which makes substantial policy changes to existing child care program requirements.

The May Revision also reduces the TANF fund transfer to Stage 2 child care to $346.1 million.

Staff recommendation: Reject the proposed reforms, restore funding for Stage 1 child care, and adopt the reduced TANF fund transfer to Stage 2 child care.

Issue G - Funding for Services Delivered by Indian Health Clinics

Background: Since 2000, California has provided funding to 36 Indian health clinics to support the delivery of mental health and substance abuse services to Native Americans. Funding supports a clinician at each of the clinics and the delivery of services designed to assist clients in securing and retaining employment. Program services include outreach, mental health or substance abuse screenings, individual or group treatment services, and assistance to integrate clients into welfare-to-work services.

Governor's Budget: The budget terminates funding for mental health and substance abuse services delivered by Indian Health Clinics for savings of $2.7 million.

Staff recommendation: Maintain the Governor's proposed reduction.

Issue H - Eliminates Substance Abuse Treatment Program for Low-Income Women

Background: The Low-Income Women Outpatient Substance Abuse Treatment and Supportive Housing Program provides transitional services to low-income women in need of substance abuse treatment who are not eligible for other treatment services.

Governor's Budget: The budget eliminates the Low-Income Women Outpatient Substance Abuse Treatment and Supportive Housing Program for savings of $2 million.

Staff recommendation: Maintain the Governor's proposed reduction.

Issue I - Community Challenge Grants

May Revision: A May Finance letter requests that the Legislature transfer $20 million in TANF funds to the Department of Health Services for support of Community Challenge Grants. The Community Challenge Grant (CCG) Program provides funds to local organizations to mitigate teen pregnancy and non-marital births. The CCG Program is specifically designed to reduce unwed and teen pregnancies, and absentee fatherhood through community-driven strategies and interventions implemented via a working partnership between the state and local community based organizations, local businesses, and youth and their parents.

Staff recommendation: Adopt the May Revision.

Issue J - TANF transfer to non-CalWORKs Programs

Background: The federal TANF law allows the state to transfer up to 10 percent of its TANF funds to Title XX. The transferred TANF funds must be spent on children or their families with incomes below 200 percent of the federal poverty level. Once transferred, the funds may be used to support any programs that meet the stated Title XX goals, including, achieving economic self-sufficiency, preventing abuse or neglect, and preventing inappropriate institutional care.

Governor's Budget: The budget increases TANF fund transfers to support non-CalWORKs activities to $176.5 million. The budget proposes the following new or increased TANF transfers: $56 million to the Foster care program, $52.5 million to Child Welfare Services, and $48 million to the Department of Developmental Disabilities.

Since 1998-99, TANF/MOE funding for non-CalWORKs programs has increased by 50 percent to $1.1 billion. CalWORKs program funding has decreased by $757.5 million in the same period.

Staff comment: Last year, the Legislature rejected a proposed TANF transfer to Title XX to offset General Fund costs in the IHSS program. The Department of Finance subsequently proposed to carry out the transfer that had been denied by the Legislature.

The LAO suggests that if the Legislature rejects proposed TANF transfers, it may want to include language that prevents the administration from implementing the transfers the Legislature has previously rejected. The LAO proposes the following language:

> *The Director of Finance is authorized to approve transfers not to exceed $162,191,000 from the federal Temporary Assistance for Needy Families (TANF) block grant to and in augmentation of any program for which TANF funds have been appropriated in this act, only if the request (1) meets all of the conditions set forth in Section 28.00 of this act, or (2) is consistent with Provision 4 of Item 5180-101-001. Notwithstanding any other provision of law, funds in this item may not be transferred into the Social Services Block Grant (Title XX).*

Staff recommendation: (1) Reject the proposed TANF transfers to Title XX; (2) Reject the proposed trailer and budget bill language associated with the transfers; (3) Adopt the budget bill language suggested by the LAO; (4) Increase General Fund support to offset the reduction in Title XX funding; and (5) Direct the TANF dollars to fund CalWORKs grant costs.

Issue K - CalWORKs Reserve

Governor's Budget: The budget proposed to appropriate $210.1 million in TANF funds to a CalWORKs reserve for contingencies.

May Revision: A May Finance letter requests that the Legislature reduce the amount of TANF funding appropriation to the CalWORKs Reserve by $47.9 million to $162.2 million.

Staff recommendation: Adopt the May Revision.

IV. Food Stamps Program

VOTE ONLY ITEM:

Issue A- Repeal Food Stamps Reforms

Governor's Budget: The budget proposed to eliminate transitional food stamps benefits and to repeal legislation which sought to increase participation in the food stamps program to realize General Fund savings of $3.5 million in the budget year.

The budget proposals will result in a $202.5 million loss in federal food stamps benefits for 81,000 low-income California households. According to the LAO, the proposed elimination of transitional benefits would result in a $4.5 million General Fund revenue loss for California. The Analyst recommended that the Legislature reject the Governor's proposals, restore Food Stamps and CFAP funding, and recognize the resulting General Fund revenues. The Subcommittee adopted the LAO recommendation at its May 6 hearing.

May Revision: The May Revision rescinds the proposed elimination of transitional food stamps benefits and repeal of food stamps reforms and requests $5.3 million ($3.5 million General Fund) in increased program funding. According to the Department of Finance, the proposal will generate ongoing annual General Fund revenue of $4.5 million.

Staff recommendation: Rescind prior Subcommittee action and adopt the May Revision.

5180 Department of Social Services - Automation Issues
4130 Health and Human Services Agency Data Center

VOTE ONLY ITEMS:

1. Operations and Infrastructure investments

Background: The HHSDC provides computer services, telecommunications support, information systems, and training support to departments in the Health and Human Services Agency. The budget provides $119.4 million to fund HHSDC operations.

May Revision: The May Revision requests a $2.2 million increase to the HHSDC spending authority to fund increased operational costs and establish 12.2 positions. Specifically, the May Revision requests $1.3 million to fund the upgrade of a shared central processing unit and augment the HHSDC enterprise disk storage capabilities, and $843,000 for system, server and storage support.

Data Center Consolidation: Chapter 225, Statutes of 2003, required the Administration to submit a plan by December 1, 2003, to consolidate the Health and Human Services Agency Data Center and the Teale Data Center to realize General Fund savings of $3.5 million. The May Revision requests approval of Control Section language that would allow the Director of Finance to realign appropriations for the purpose of implementing data center consolidation. Additionally the Control Section would allow a transfer of $3.5 million from the Teale Data Center Revolving Fund to the General Fund. The Administration has provided to the Legislature an "Outline for Consolidation" but has not developed a final consolidation plan.

Legislative Analyst's Office Recommendation: The LAO does not raise any concerns with the requested hardware increase of $962,000. However, the LAO recommends rejection of the requested staffing increases (12 positions) and associated funding ($1.2 million) as the administration intends to consolidate HHSDC and Teale, and has not examined the staffing needs of the consolidated data center.

Staff recommendation: Adopt the LAO recommendation.

2. Unemployment Insurance Modernization Project

Background: Last year, the Legislature provided an $85 million augmentation in Reed Act funds to the Employment Development Department (EDD) to fund automation improvements that will increase EDD's capacity to detect and control fraud. The funding will support the redesign of the unemployment insurance (UI) continued claims system, improve the service levels at the UI call centers, and prevent and detect fraud in the UI system. Specifically, the Continued Claims Redesign project will provide new ways for clients to certify for benefits and improve the Department's ability to detect and prevent fraud. The Call Center Network Platform & Application Upgrade Project will improve the UI call center platform security and redesign the interactive voice response system. The Health and Human Services Data Center is the state entity responsible for management of the UI Modernization project and for procurement activities.

Finance Letter: A recent Department of Finance (DOF) letter requests that the Legislature increase the Data Center's expenditure authority by $17.8 million and establish 5 new positions to support activities associated with the Unemployment Insurance Modernization Project. The request will maintain funding and positions granted to HHSDC in the current year. According to DOF, federal funds will cover one-time development and implementation costs for the projects. Following implementation, ongoing costs will be funded through EDD baseline reductions.

Staff recommendation: Adopt the Finance letter.

3. Case Management Information and Payrolling System (CMIPS)

Background: The In Home Supportive Services (IHSS) program provides supportive services to eligible aged, blind and disabled persons that allow them to remain safely in their own homes as an alternative to out-of-home care. Program services are generally delivered by independent providers who are hired, trained and supervised by IHSS consumers. Since 1979, the state has developed and maintained a case management information and payrolling system to facilitate and standardize payments to providers of IHSS services.

Over the years, CMIPS has been modified to incorporate some program changes, including implementation of the Personal Care Services Program, which made IHSS services an entitlement for eligible Medi-Cal beneficiaries, and to support some case management functions. However, CMIPS has not kept pace with recent program changes and lacks important functionalities. For example, the system has limited case management capabilities, does not support employee registries, cannot make most payroll deductions, requires a cumbersome process for updating wage rates and is not capable of tracking benefits.

In 1998, DSS was directed by state control agencies to conduct a competitive procurement for a new contract for CMIPS maintenance. Since September 2000, HHSDC has been conducting the analysis and planning for the IHSS/CMIPS competitive procurement. The Legislature has twice authorized extension of funding and positions for CMIPS II. However, the project remains in the planning stage and the Administration is currently re-evaluating the procurement strategy.

Governor's Budget: The budget proposes to extend funding for CMIPS procurement activities for one year to support re-evaluation of the procurement strategy ($1.7 million total funds).

In January, the Administration proposed to migrate the CMIPS system to the California Medicaid Management Information System to benefit from enhanced federal financial participation in development costs. The Administration is now pursuing enhanced federal financial participation in CMIPS II as part of its IHSS Plus Waiver.

May Revision: A May Finance letter requests that the Legislature reduce General Fund support for CMIPS procurement activities by $293,000 and increase reimbursements by the same amount to reflect an increase in federal financial participation.

Staff recommendation: Adopt the Finance letter and adopt trailer bill language to specify the components that CMIPS II must include and establish a deadline to begin procurement.

DISCUSSION ITEM:

1. Child Welfare Services/ Case Management System

Background: Federal and state laws require the state to provide automated case management support to child welfare workers. California accomplishes this goal through the Child Welfare Services Case Management System (CWS/CMS). CWS/CMS has been in operation for seven years. The system is operated by an independent contractor and is based in Boulder, Colorado.

Since 1994, California has received enhanced federal financial participation for CWS/CMS development costs to support the development of an automation system that meets federal Statewide Automated Child Welfare Information System (SACWIS) compliance. Federal rules provide enhanced federal financial participation to states pursuing SACWIS compliance and require states to return enhanced funding if the state does not meet the federal automation system requirements. CWS/CMS meets 61 of the 87 federally required functionality requirements, and is not a fully SACWIS compliant system.

As a result of long-standing concerns, regarding the CWS/CMS maintenance and operations contract and the fact that the system is not SACWIS compliant, the federal government reduced funding for the maintenance and operation of CWS/CMS effective July 2003. The federal government has continued to provide federal funding for system costs but has not participated at the enhanced level of funding.

The Schwarzenegger Administration has been working with the federal Health and Human Services Agency to address federal concerns and secure continued federal funding for CWS/CMS. California submitted a CWS/CMS "go-forward plan" to the federal Health and Human Services Agency on May 12. The plan outlines how California will proceed in areas of key federal concerns: moving the CWS/CMS application to a State Data Center; conducting a competitive procurement for an application maintenance contract, and examining potential technical architecture solutions for the future of the system. The Administration for Children and Families is reviewing the state's plan and has expressed pleasure with the state's effort to move towards a competitive procurement for CWS/CMS maintenance, to evaluate program requirements and to adopt a system architecture that meets the state's programmatic needs.

May Revision: The May Revision contains a series of proposed changes relative to CWS/CMS. Specifically, a May Finance letter requests that the Legislature adopt the following changes to the Governor's Budget: (1) provide a $10.2 million General Fund increase due to the lower level of federal financial participation in the non-SACWIS system; (2) decrease program funding by $6.1 million ($3 million General Fund) due to a delay in development of the Expanded Adoptions Subsystem; (3) Adopt budget bill language that authorizes the Department of Finance to augment DSS and HHSDC in order to transition the CWS/CMS system from the contractor to a State Data Center; and (4) the Administration's CWS/CMS go-forward plan.

Legislative Analyst's Office Analysis and Recommendations: According to the LAO, it is unclear at this time if the federal government will approve the requested 40 percent funding level for the project. If funding is not restored at the 40 percent level, General Fund costs will be higher than those assumed in the May Revision. The LAO raises the following concerns about the proposed "go-forward plan": (1) the Administration proposes to take one year to analyze three alternatives for the technology to support the system; (2) the Administration does not propose to include a non-SACWIS alternative; and (3) the proposed solutions may result in a single contract, instead of a procurement strategy that maximizes competition.

The LAO recommends that the Legislature: (1) reduce the CWS/CMS costs by $19.4 million ($11.7 million General Fund); (2) adopt budget bill language that requires: DSS to provide the highest priority to the CWS/CMS planning and procurement efforts; the plan to be completed by December 1, 2004; a non-SACWIS alternative be examined; the technology alternatives be based on open systems standards and architectures; and alternatives use multi-procurement strategies; and (3) adopt trailer bill language that requires the state control agencies to expedite their reviews and authorizes DSS to use outside legal expertise in its contract negotiation.

Subcommittee request and questions: The Subcommittee has requested that the Administration briefly discuss the proposed "go-forward plan" and the CWS/CMS changes proposed in the May Revision. The Subcommittee has also requested that the LAO discuss their analysis of the Administration's proposal and their recommendation.

Staff recommendation: (1) Adopt the $6.1 million reduction and the budget bill language proposed by the Administration in the May Revision; (2) Adopt, as placeholder language, the budget and trailer bill language proposed by LAO; and (3) Reduce project funding by 10 percent.